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ABSTRACT

This document is comprised of a progress report and five policy briefs related to the New Mexico Advocates for Children and Families' Campaign To Reduce Child Poverty. This multi-year initiative educates the public and policymakers about child poverty and promotes public policy changes that would reduce poverty. The progress report presents information on the incidence of child poverty in New Mexico, describes the negative outcomes of poverty for children, summarizes five policy briefs published as of September 2001, and discusses their impact on policy. Policy Brief1, "Expanding the Low Income Comprehensive Tax Rebate," discusses a proposal to expand the state's low income comprehensive tax rebate to poor and working poor families as a cost-effective strategy to reduce child poverty. Policy Brief2, "Mail-In Medicaid Enrollment," presents ways to reduce barriers to health insurance for New Mexico's low-income children and shows that existing policies pave the way for mail-in Medicaid enrollment. Policy Brief3, "Enhancing the Benefits of Tax Rebates and Credits," suggests that the state enact legislation which would cap the interest rate for "rapid refund" loans, thereby reducing the earned income credit to which they were entitled. Policy Brief4, "Medicaid Look Back Periods are Barriers to Health Insurance for Children," examines the wisdom of the "look back" policy forcing families to have their children uninsured for 12 months to take advantage of free health insurance through the state and recommends eliminating the look back period. Policy Brief5, "Insuring Parents Improves Health Outcomes for Children," investigates utilization of preventative healthcare by insured children in New Mexico, shows that parents who obtain preventative care for themselves were more likely to obtain similar care for their children, and concluded that public policy targeting parental access to and utilization of healthcare

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could increase preventative care for children by increasing the ability of families to obtain care. (KB)

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Campaign To Reduce Child Poverty

Progress Report [and] Policy Briefs #1-5

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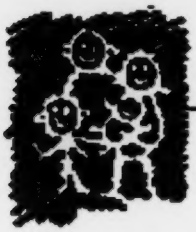

September, 2001

NEW MEXICO ADVOCATES FOR CHILDREN AND FAMILIES

Campaign to Reduce Child Poverty

PROGRESS REPORT

Two years ago, New Mexico Advocates for Children and Families identified child poverty as a root cause of many of the poor outcomes of child well being. Poverty significantly increases the probability that a child will experience one or more risk factors or negative outcomes such as teen pregnancy, dropping out of high school andjuvenile incarceration. [1] Poor children are 30% more likely than non-poor to have a learning disability, twice as likely to flunk a grade and three times as likely to be expelled from school. Each year a child spends in poverty increases by two percentage points the probability that he or she will score below grade level. [2]

One of four New Mexico children lives in poverty, and one in three children under 5 is poor. It is no wonder then, that in 2001, New Mexico was ranked as 47th in the country in births to teen mothers and 45th in the country in percent of teens who are high school drop outs. Forty eight percent (48%) of New Mexico's fourth gradestudents scored below the basic reading level in 1998, compared to 39% nationally.[3]

At New Mexico Advocates, we believe that the poor status of children effects us all. We believe that there are public policy responses at the state level that can relieve poverty and improve the status of children. For these reasons, we embarked on the Campaign to End Child Poverty, which is a multi-year initiative to educate the public and policy makers about child poverty, and to promote policy changes which would reduce poverty.

One of the principal tools in the Campaign is a series of policy briefs which highlight policy changes to decrease poverty. By June 30, 2001, we had published the first four policy briefs. We have had some modest success in our efforts to educate the public and policy makers about policies that could alleviate child poverty:

Policy Brief # 1 : *Expanding the Low Income Comprehensive Tax Rebate*

We proposed a $30 million dollar expansion to the state's low income comprehensive tax rebate (LICTR). LICTR rebates gross receipts taxes to poor and working poor families, and is most easily comparable to a state earned income tax credit, although it has an important distinction. Because it rebates gross receipts taxes (which all New Mexicans pay on food and goods) and not income tax, a LICTR rebate is available to extremely poor people who may not have adequate income to receive an income tax rebate. The NMACF proposal would have lifted 6,000 children out of poverty.

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During the 2001 legislative session, the Speaker of the House of Representatives, Ben Lujan, sponsored a LICTR expansion bill that NMACF proposed. Our original proposal of $30 million expansion was reduced to $10 million in the final tax package. Nonetheless, we believe that the expansion of LICTR represented an important step toward moving child poverty reduction to the center stage in the public policy debates.

The legislature passed the LICTR increase, which was tied to an income tax cut that Governor Johnson proposed. The Governor vetoed the measure, in part because he did not support the LICTR expansion. NMACF will continue efforts to expand LICTR in the 2002 legislative session.

Policy Brief # 2: *Mail-In Medicaid Enrollment: Reducing Barriers to Health Insurance for New Mexico's Low-Income Children*

Lack of health insurance for low income New Mexicans, especially children, continues to be a barrier to health in spite of efforts to increase enrollment of children in Medicaid. According to a recent survey by the New Mexico Health Policy Commission, 27.7% of New Mexico's children remain uninsured.[4] Research suggests that consistent health supervision over the course of a child's development not only prevents disease, it helps to ensure a child's success in school, at home, in the community, and in adulthood. [5] Many poor and working poor families cannot afford the costs of health insurance for their children.

NMACF recommended several policy and practice changes that would reduce barriers to enrollment and help the children of working poor families:

- We recommended that the Human Services Department (HSD) remove the requirement of face-to-face interviews with an income support division (ISD) employee before Medicaid enrollment could be completed. This requirement exceeded federal mandates.

  Result: As of July 1, 2001, HSD no longer requires face-to-face interviews for Medicaid re-certification. We continue to urge them to remove the face-to-face requirement for initial enrollment as well.

- Some ISD workers also required extensive verification of income and residency, again beyond what the federal government required. Parents were often hesitant because they were not citizens, and so would not enroll their children in Medicaid. NMACF recommended changing this practice.

  Result: HSD issued a directive clarifying this issue, and stated that parents would no longer be asked their residency. Practice among ISD workers continues to be problematic in this area. Practices for verifying cash income have been standardized among the ISD offices, but we believe the requirements by HSD/ ISD could be further simplified.

- Most significantly, we recommended that the state begin using the extensive, automated tax data system to automatically enroll children in Medicaid. Not only would the process make enrollment of children easier for parents, it would save the state money and free up ISD workers to perform other tasks.

  Result: HSD and the state Taxation and Revenue Department have reached a preliminary agreement to begin automatic re-enrollment of children next year. We believe this is significant progress. No other state in the country has yet begun automatic enrollments. Re-certifica-

tion has been a major problem in most states because parents fail to re-enroll their children at the expiration of the one year eligibility term. Automatic re-enrollment will save the costs of enrolling these children again, and allow the state to make progress in reaching all eligible but unenrolled children.

Policy Brief #3: *Enhancing the Benefits of Tax Rebates and Credits.*

The Earned Income Tax Credit (EITC) is a federal poverty relief program. Working poor families are eligible for an income tax credit if their income meets the federal guidelines. For the 2000 tax year, a family with two or more children and earned income of $10,000 was eligible to receive $3,888 in EITC. Designed as a poverty reduction tool at the national level, the EITC lifted approximately 20,000 New Mexican households and 36,000 children from poverty. But, NMACF'sresearch showed that many working poor New Mexicans paid high tax preparation fees and high interest rates for "rapid refund" loans. In Gallup, for example, many filers who qualified for the full EITC refund of $3,888 paid $90 for the tax preparation (compared to the usual fee of $30 to $60) and *an additional $580 for the rapid refund.* This charge of 15% of the EITC refund for a three week loan (the average time for the refund) is equivalent to an annual interest rate of 180%.

To remedy this problem, we suggested in the policy brief that the state enact Rapid Refund Anticipation Loan (RAL) legislation which would cap the interest rate. We introduced such legislation during the 2001 session. Sponsored by Senator Leonard Tsosie and Representative Ray Begay, the senate version of the bill was heard in several committees, but failed to pass a vote on the Senate floor.

The bill was hotly contested, especially by the trading post owners in the Gallup area who make many of the rapid refund loans, and by commercial bankers who were concerned that capping the interest rates on the rapid refund loans would result in interest rate caps for commercial loans as well. Because New Mexico does not have usury legislation, the bill was opposed by others who make high interest loans (like pay day and title loans) to low income people who are have no access to traditional lending sources.

While the bill failed to pass during the regular session, the legislature committed to study possible reforms of all high interest loans. To date (August, 2001), that study has not commenced.

The RAL legislation received excellent media coverage, including several lengthy stories in the statewide newspaper. Because of that attention, New Mexico's U.S. Senator Jeff Bingaman decided to introduce legislation at the national level to cap interest rates on RALs. He proposes to attach language to another bill, but his staff reports that H&R Block lobbyists are working hard to defeat such a measure. We continue to work with Senator Bingaman on this issue.

Policy Brief #4: *Medicaid Look Back Periods are Barriers to Health Insurance for Children*

Medicaid is a federally subsidized program that allows states to provide health insurance for low income children. In New Mexico, it is available to children 19 and under who live in households with incomes equal to or less than 185% of the federal poverty threshold. [6] The cost of Medicaid is shared by the state and the federal government at a ratio of one state dollar for three federal dollars.

The federal government also makes funds available to expand children's health insurance beyond the limits defined by the state's Medicaid policies, at a match rate of one state dollar to four federal dollars. New Mexico opted to extend health insurance coverage to children in households with income equal to or less than 235% of the federal poverty threshold. [7]

However, the Human Services Department was concerned that providing free health insurance for children in households between 186% and 235% of federal poverty thresholds would "crowd out" private insurance providers. To counteract this concern, HSD enacted a policy called a "look back" period. Basically, the policy stated that if families with annual incomes of 186% - 235% of poverty dropped private health insurance coverage, they could not enroll their children in the free Medicaid coverage until 12 months had elapsed. Families were therefore forced to have their children uninsured for 12 months to take advantage of the free health insurance.

The policy brief examined the wisdom of the look back period from several viewpoints:

- the experiences in other states who had eliminated the look back period. In those states, research indicates that there had not been crowd out of private insurance carriers;
- the costs to the state of providing health care in the case of a catastrophic illness for a child with no health insurance;
- the affects on family budgets of health insurance costs. For example, a mother with two children who earned 210% of the federal poverty threshold, or $28,236, would have to pay $1,869 for health insurance for her two children. After other, regular household expenses, she would spend $1,880 more than her annual salary. With Medicaid, her expenses would equal her income.

Based on the analysis, the policy brief recommended eliminating the look back period. By doing so, low income families could make sure their children had health insurance, while also saving the costs of health insurance for other essential expenditures.

Result: Effective July 1, 2001, HSD revised their policies and eliminated the look back period. Children are now able to enroll without any delay or lapse in their health care coverage.

Conclusion. We believe that the Policy Briefs have been an effective tool to educate policy makers and the general public about how public policy canreduce poverty and increase the well being of children. The long term implications of the above changes in policy, and their impact on child poverty are issues requiring further research and evaluation.

[1] Duncan, G. and Brooks-Gunn, J. 1997. *Consequences of Growing Up Poor*. New York: Russell Sage.

[2] Arloc, Sherman (1997) *Poverty Matters: The Cost of Child Poverty*. Children's Defense Fund. http://www.childrensdefense.org/povmat.pdf

[3] Annie E. Casey Foundation *2001 Kids Count Data Book*.

[4] New Mexico Health Policy Commission, 2001.

[5] Green, M., and Palfry, J.S. eds, (2000) Bright Futures: Guidelines for Health Supervision of Infants, Children and Adolescents. Second Edition. Arlington, Va: National Center for Education in Maternal and Child Health.

[6] In 2001, for a family of three, 185% of the federal poverty threshold is an annual income of $27,065.

[7] In 2001, for a family of three, 235% of the federal poverty threshold is an annual income of $34,380.

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NEW MEXICO ADVOCATES FOR CHILDREN AND FAMILIES

Campaign to Reduce Child Poverty

Policy Brief #1

Expanding the Low Income Comprehensive Tax Rebate (LICTR): A Cost-Effective Strategy to Lift Children Out of Poverty in New Mexico[1]

New Mexico has the nation's highest child poverty rate.

Childhood Poverty in New Mexico

One third of New Mexico's children live in poverty: sixty ***thousand*** children under the age of six. Childhood poverty not only damages the child, it continues to limit and damage the adult the child becomes.

Poor children have:

- Greater risk for serious and chronic health problems
- Greater exposure to violence at home and in the neighborhood
- Reduced school readiness due to cognitive and developmental delays
- Higher risk of dropping out of school

The long-term consequences of growing up in a poor household are sobering: adults with limited education confined to low wage jobs; high rates of unemployment; substance abuse, homelessness, and more. And the cost of poverty is public, as well as private. Poor people rely on public benefits such as indigent care or cash assistance to survive.

Children under the age of 6 are particularly vulnerable to the effects of poverty.

First, this age group is particularly vulnerable to the negative health effects of poverty, and alleviating those effects would yield long-term benefits. *Second*, the poverty rate is particularly high among families with pre-school children. *Third*, reduced reliance on welfare benefits leaves poor families particularly vulnerable. Supplementing their income through the tax system is a non-stigmatizing way to deliver needed assistance, and to help families exit welfare successfully.

Unique Aspects of Poverty in New Mexico

Striking differences exist in the rates of poverty among the states in the U.S. New Mexico has one of the highest rates of poverty in the nation. Poverty is not only more prevalent in New Mexico than in most other states; it is also different in at least

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three important ways. First, nationally poverty is largely an urban phenomenon, while in New Mexico it is not concentrated in urban areas (in 1997 the Census Bureau estimated that only 23% of people living in poverty lived outside of metropolitan areas; in New Mexico more than half of those living in poverty live outside a metropolitan area). Many poor New Mexicans live in remote rural locations, far from jobs and social service offices, making access to both employment and income support and social service programs more difficult. Second, the income distribution in New Mexico is more unequal than in most other states. While New Mexico is home to many very poor families, it is also home to some very wealthy ones. Studies show that this disparity between rich and poor negatively affects health, including child health and infant mortality. Third, *in New Mexico **almost half** of poor people* are severely poor (defined as having an income less than half the applicable poverty threshold), compared to the national rate of 41%. Generalized calculations of the number of families living below the poverty line do not distinguish between families living near the poverty line, from those living far below it.

One of the most cost-effective approaches to reducing poverty is through tax-based policy.

Tax Policy: An Effective Approach to Alleviating Poverty in New Mexico

Poverty reflects systemic issues that are part of national, and international, economic and political structures. But part of the difference in child poverty rates among states is due to differences in policies and programs at the state level. If those differences were understood in terms of specific programs that reduce poverty, individual states, including New Mexico, could knowledgeably implement programs that addressed this serious problem.

At the national level, the Earned Income Tax Credit (EITC) has been particularly effective at raising families from poverty. According to the Washington D.C.-based Center on Budget and Policy Priorities, the EITC lifts more children out of poverty than any other government program. The EITC also encourages families to remain employed as the tax credit is only applicable to earned income. However, the extremely poor, who face worse consequences than those living just below the threshold, are less likely to be lifted from poverty by existing programs like the EITC.[7]

Financial assistance provided through the tax system avoids some of the pitfalls associated with other poverty relief programs. Eligibility is determined and benefits delivered by mail, which makes it easy for residents in remote parts of the state to obtain the benefits for which they are eligible. Assistance delivered through the tax system is less stigmatizing than that which requires a visit to an Income Support Division office. And expanding existing tax-based programs entails much lower administrative costs than expanding conventional entitlements.

New Mexico's Existing Tax Policy: A Step in the Right Direction

Fortunately, several aspects of New Mexican tax policy lend themselves to tax-based programs that alleviate poverty. New Mexico already has a unique tax-based policy in place, the Low Income Comprehensive Tax Rebate (LICTR), that allows a rebate to all households with modified gross income of $22,000 or less (counted as all earned and unearned income, including public benefit income). Virtually all poor New Mexicans qualify for this tax rebate, even if they have no earned income, because LICTR is not an income-based credit. Rather, it rebates a portion of the gross receipts tax on necessities. This tax disproportionately impacts the poor who have no choice but to spend virtually all of their income on gross receipts taxable commodities such as food.

LICTR has been in place for almost thirty years. Three factors - availability of a rebate absent any earned income, the longevity of the program, and the virtually anonymous non-stigmatizing delivery mechanism - contribute to the high number of poor families who apply for the credit. Estimates are that 90-95% of New Mexicans living in poverty file for LICTR rebates.

The Most Cost-Effective Tax-based Strategy To Alleviate Childhood Poverty in New Mexico

A study conducted by New Mexico Advocates for Children and Families, "State Tax Policy and Child Poverty in New Mexico", concludes that the most cost-effective tax-based strategy to alleviate child poverty in the state is a two-tiered one that would combine restructuring LICTR to increase allowable exemptions for dependent children, with a tax rebate administered as part of LICTR, targeted at children aged six and younger. More than 100,000 New Mexican families would benefit from this two tiered approach.

- **Revision of LICTR To Increase the Rebate and Make the Exemption Status of Children Equal to the Exemption Status of the Elderly and the Blind:** LICTR amounts are based on household size. Each member of the household is an "exemption" for purposes of LICTR. If LICTR were revised to allow poor families with children **two extra exemptions per dependent child**, the exemption status of children would be equivalent to that currently allowed the elderly and the blind (i.e., currently the elderly and blind are allowed a total of three exemptions, while children are allowed only one). In addition, the LICTR rebate would be increased by 20% for filers having more than one exemption, and more than $3,500 in modified gross income.

- **The Early Childhood Advantage Tax Rebate:** This rebate would provide an additional credit to families with children ages six years and younger, thereby addressing the problem of poverty among the youngest children in the state. The amount of the credit would depend on the family's modified gross income, and the number of young children in the household.

More than 6,000 children would be lifted completely out of poverty by these policies...at a cost of $2,500 per child.

The cost of reducing poverty by one percentage point is $1.7 million, far less than other tax based policy options.

Cost / Benefit Analysis

The average cost of lifting a child out of poverty through these policies is approximately $2,500 per child. The combined cost for these policies is $29 million. The average depth, or severity, of poverty would be reduced by 9%.

For example, changing the standard deduction allowed to head-of-household would not affect child poverty because households below the poverty threshold have no tax liability in New Mexico.

Other tax credit options aimed at alleviating poverty in families with children either cost more than the two-tiered LICTR restructuring and rebate approach, or benefit fewer families, or both.

- A tax credit of $300 per child in families below the poverty level would cost $45.6 million; increasing the credit to $400 would cost $60.8 million. The $400 credit lifts 11,827 children from poverty but costs twice the LICTR proposal.

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- A graduated tax credit, for families in extreme poverty, would also cost $60.5 million and would lift fewer families from poverty than the $400 credit.

- An income tax credit similar to Arizona's Family Income Tax Credit, would cost about as much as the LICTR restructuring ($23 million) but would only lift 1,803 children from poverty, compared to the more than 6,000 who would be lifted through LICTR restructuring combined with the Early Childhood Advantage Tax Rebate.

The LICTR revisions proposed here, combined with the Early Childhood Advantage credits, are by far the most cost-effective tax-based policy to alleviate childhood poverty in New Mexico. LICTR revisions alone would not be as cost-effective as the combined policy proposed. The cost of the LICTR component is $13.6 million. This component alone would lift only 446 families from poverty, including 734 children, at an average cost per child lifted of $14,387 (the highest average among all policies considered). Adding the Early Childhood Advantage components adds $15.3 million in tax expenditures, but increases the number of families lifted from poverty by more than six-fold, and the number of children lifted by more than eight-fold.

The cost of this policy would be partially offset by tax revenues gained. Virtually every dollar returned to poor New Mexicans will be spent on goods and services that yield gross receipts tax revenue. As a result, roughly $1.3 million of the program's estimated $29 million annual cost would be returned to the state each year.[3]

Positive Action by New Mexico Policy Makers

While poverty and inequality in New Mexico are particularly severe, there are also unique opportunities within the state tax system to address these problems. Policies that specifically target families with young children address the poorest and most vulnerable segment of the population. The benefits associated with reducing poverty extend beyond the numbers. By investing in policies that reduce childhood poverty the state invests in the future.

Legislators and the Governor have a unique opportunity to take a significant step towards alleviating the problem of childhood poverty in New Mexico. Lift 6,000 children out of poverty by enacting the proposed revision of LICTR, and the Early Childhood Advantage Tax Rebate in the next legislative session.

A complete version of this report is available on-line at www.nmadvocates.org

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[1] This study was funded by the W.K. Kellogg Foundation, Grant Number P-0060131 and the Annie E Casey Foundation through the New Mexico Kids Count project. However, the conclusions and policy recommendations made are those of New Mexico Advocates for Children and Families, not the supporting foundations.

[2] Use of the EITC by residents of New Mexico will be the focus of another policy brief.

[3] Data for this analysis was obtained from 1998 state tax returns. The data set, obtained from the New Mexico Taxation and Revenue Department, includes approximately 95% of the low-income population in New Mexico, allowing accurate inferences about the revenue implications of specific changes in tax policy. For the full analysis, see "State Tax Policy and Child Poverty in New Mexico" available from New Mexico Advocates for Children and Families.

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NEW MEXICO ADVOCATES

FOR CHILDREN AND FAMILIES

Campaign to Reduce Child Poverty

Policy Brief #2

Mail-In Medicaid Enrollment: Reducing Barriers to Health Insurance for New Mexico's Low-Income Children[1]

Medicaid is a federally-supported program that provides health insurance to low-income children, the disabled and the elderly. This policy brief addresses the need for health insurance for low-income children.

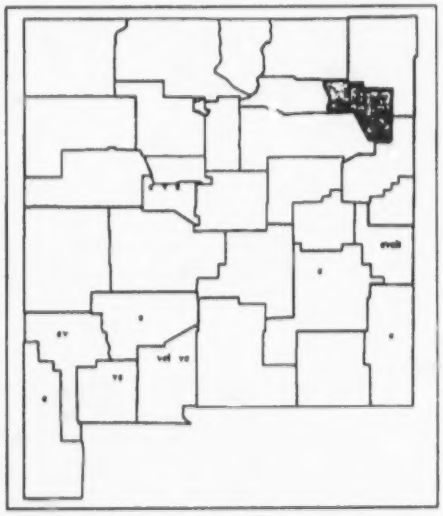
Despite recent program expansions that extended Medicaid eligibility to almost two-thirds of New Mexico's children, 15% of low-income children remain uninsured.

Medicaid Enrollment Rates Vary Across Counties

A recent study of regional patterns of Medicaid enrollment conducted by New Mexico Advocates for Children and Families and the New Mexico Taxation and Revenue Department[2] concludes that significant variation exists in Medicaid enrollment rates in New Mexico (see map).

For example, enrollment of eligible children ranges from 31% in Harding County to 82% in Torrance County. Reasons for low enrollment differ across counties: San Juan County's 40% enrollment rate may be attributable to literacy, language barriers, and the long distances many rural residents must travel in order to reach the Income Support Division Office in Farmington. Densely populated, highly literate Los Alamos County also has a 40% enrollment rate, but under-enrollment there probably results from lack of awareness of Medicaid eligibility for the children of working parents. An additional reason may be that enrolling in Medicaid requires time away from work to travel to, and wait at, the ISD office in Espanola.

Percentage of Eligible Children Enrolled in Medicaid by County



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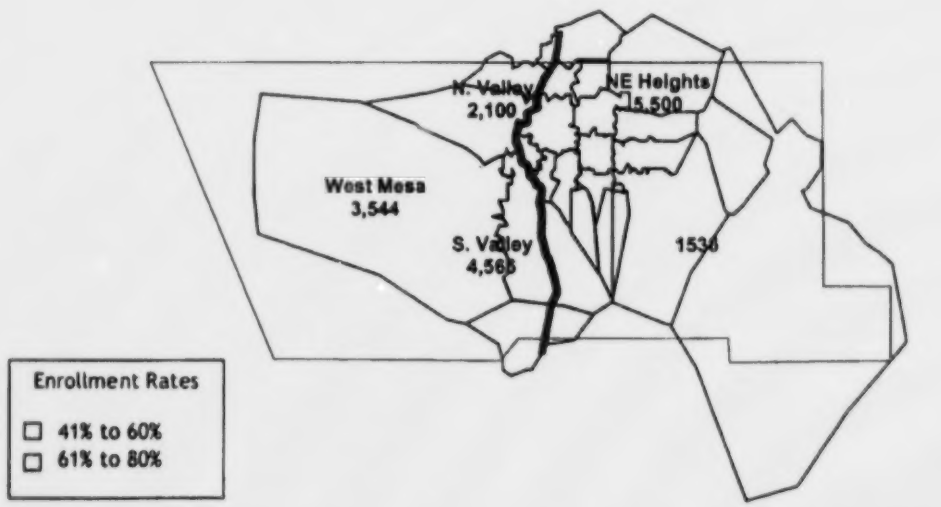
All U.S. children in households below 185% of the federal poverty threshold are eligible for conventional Medicaid, regardless of existing coverage and/or the immigration status of their parents. Children in households with income between 185% and 235% of federal poverty who are not already insured are eligible for Medicaid coverage under the State Children's Health Insurance Program (SCHIP). Even before Medicaid expansion (under SCHIP) raised the income ceiling on Medicaid eligibility from 185% to 235% of the federal poverty threshold, New Mexico led the nation in providing Medicaid to the children of low-income working parents.[3]

Unfortunately, the Human Services Department has adopted policies that may retard enrollment. Among these are requirements for face-to-face interviews with an Income Support Division employee before enrollment can be completed. New Mexico is one of only 12 states still requiring face-to-face interviews. Another HSD policy requires extensive verification of income and residency. Only 18 states require applicants to verify both income and residency.

Medicaid enrollment in New Mexico is considerably more time and paperwork intensive than it is in other states.

Income and residency verification requirements imposed by the state Human Services Department substantially exceed those mandated by the federal government. Under federal Medicaid law the only eligibility criterion that must be verified is the child's immigration status[4]. The consequences of the state's additional requirements are severe: *eligible applicants can be discouraged from completing the application process, or be wrongly denied Medicaid.*

<u>Medicaid Enrollment and Unenrolled Eligibles in Bernalillo County by Zip Code</u>



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Medicaid is available to many working families with children, even if they are not eligible for cash assistance. Welfare reform "de-linked" cash assistance from medical assistance. However, county-wide rates of Medicaid enrollment parallel Temporary Assistance to Needy Families (TANF) utilization, suggesting that the two programs remain linked in the minds of many potential recipients. As a result, many people who are eligible for Medicaid are not enrolled because they do not realize Medicaid is available to working families. As the table below illustrates, 122,319 children in New Mexico who are eligible for Medicaid are not receiving it. Children in families with income at, or just above, the poverty threshold are the largest un-enrolled group.

Un-Enrolled Medicaid Eligible Children by Income		
Income as a % of the 1998 Federal Poverty Threshold	Un-Enrolled Eligibles	% of all Un-Enrolled
0% to 50%	11,009	9%
51% to 100%	28,133	23%
101% to 185%	56,266	46%
186% to 235%	26,911	22%
Total	122,319	100%

A Simple Approach to Enroll Children in Medicaid Using Tax Data

The profound county-by-county variation in the barriers to Medicaid participation calls for a systemic solution such as mail-in Medicaid enrollment. Mail-in Medicaid enrollment could be administered through New Mexico's Low Income Comprehensive Tax Rebate (LICTR). Application for LICTR requires completion of the "Rebates and Credits" form included in a New Mexico personal income tax packet. The information provided is sufficient to determine Medicaid eligibility in most cases[5].

Mail-in Medicaid enrollment administered in conjunction with LICTR has the potential to 1) improve the health and well-being of New Mexico's children, 2) enhance the efficiency of government and 3) save the state money.

The non-trivial sums of money distributed and the anonymous, non-stigmatizing nature of the delivery mechanism means that New Mexicans who are geographically isolated, or otherwise unable to avail themselves of assistance through the Human Services Department (food stamps, general assistance, and TANF) do file for LICTR. Estimates based on comparisons of the 1990 census with 1990 state tax filings indicate that 90 to 95% of poor New Mexicans file a state tax return.

Fiscal Benefits for New Mexico

Sick children are more likely than healthy children to be enrolled in Medicaid. By making Medicaid enrollment more convenient, mail-in enrollment will bring children with a lower demand for healthcare into the Medicaid "risk pool," reducing the average cost per child.

Most low-income New Mexicans file tax returns as early as possible in order to recoup withheld personal income tax and take advantage of LICTR. If mail-in enrollment were administered in conjunction with LICTR, most enrollments and re-enrollments would occur in February and March, making it much easier to forecast growth in caseloads and perhaps eliminating the need for supplemental appropriations throughout the fiscal year.

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If over 80% of Medicaid eligible children can be identified through (legally binding) data already submitted on their parents' tax returns, why does New Mexico require a separate application and a face-to-face interview?

Existing Policy Paves the Way for Mail-in Medicaid Enrollment

Three existing policies already adopted by the Medical Assistance Division establish a strong policy foundation for mail-in Medicaid enrollment:

1. ***Presumptive eligibility*** (PE) allows providers to be reimbursed for treating uninsured children in need of care who appear Medicaid eligible. Children deemed presumptively eligible are enrolled in Medicaid for one month. If, within that month, their parents fail to officially enroll them by supplying the required verification of residency and income, the children are dropped from Medicaid.

2. ***Twelve-month continuous eligibility*** means that once a family is determined to be Medicaid eligible they retain coverage for twelve months regardless of changes in their parents' income. Thus, data from an annual tax filing would be sufficient evidence to justify 12 months of Medicaid.

3. ***Elimination of the assets test:*** In New Mexico eligibility for Medicaid is based on income alone and not on the value of assets such as savings accounts, houses, or cars. The assets test was eliminated for Medicaid as a pragmatic decision. Assets are easy to conceal and verifying their value is costly to the state.

In addition, The innovative system of low-income rebates and credits administered through the New Mexico personal income tax system makes it possible to identify most Medicaid eligible households from their tax returns.

Data provided on 1998 state personal tax returns was used to identify households with Medicaid eligible children. These tax returns were then matched by social security numbers to Medicaid case files provided by the Human Services Department. Households that appeared to be eligible but that did not have an active case file at the Medical Assistance Division were sent a letter informing them of their apparent eligibility, the benefits of Medicaid enrollment, and how to go about enrolling their children.

By capitalizing on the wealth of data already collected through the tax system and the well-understood penalties associated with providing false information on a tax return, the need for face-to-face Medicaid enrollment is eliminated. Valuable human services dollars could then flow to programs vital to the self-sufficiency of New Mexico's low-income working families such as job training, child care, LICTR, or a state-level earned income tax credit.

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[1] This study was funded in part by the W.K. Kellogg Foundation, Grant Number P0060131, in part by the Annie E. Casey Foundation through its KIDS COUNT Project, and in part by the Robert Wood Johnson Foundation through its Covering Kids Project. However, the conclusions and policy recommendations made are those of New Mexico Advocates for Children and Families and not the supporting Foundations.

[2] The *Medicaid Enrollment, Zip Code and County Profiles, NMACF and New Mexico Taxation and Revenue Department. Available at www.nmadvocates.org.*

[3] In 1997, before the state children's health insurance program significantly increased the income eligibility threshold for Medicaid and other forms of health insurance for low-income children, all New Mexico children under 185% of the federal poverty threshold were eligible for Medicaid. In most states, Medicaid eligibility was limited to children under 100% of the federal poverty threshold. Only 7 states had income eligibility thresholds higher than New Mexico's and most of these states had considerable higher median wage.

[4] ***Steps States Can Take to Facilitate Medicaid Enrollment of Children*** December 6, 1999 Center for Budget and Policy Priorities. http://www.cbpp.org/12-6-99health.htm.

[5] The Modified Gross Income (MGI) upon which LICTR amounts are based includes all the components of adjusted gross income (AGI) as well as TANF, SSI, gifts, pensions, child support, and workers' compensation payments. MGI does not measure wealth, but it does constitute a fairly comprehensive measure of both earned and unearned income for low-income households.

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NEW MEXICO ADVOCATES FOR CHILDREN AND FAMILIES

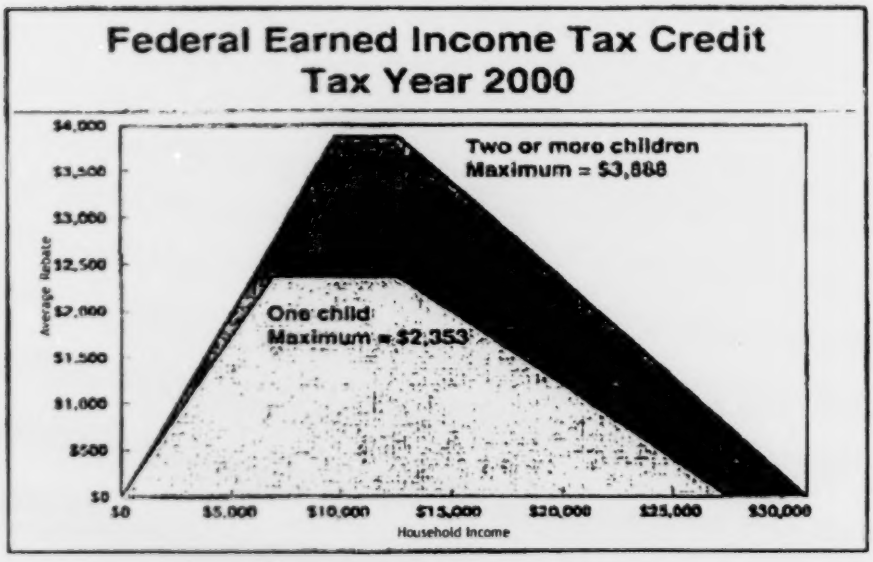
Campaign to Reduce Child Poverty

Policy Brief #3

Enhancing the Benefits of Tax Rebates and Credits

he federal government provides assistance to low-income working families through the Earned Income Tax Credit (EITC). This program is a powerful weapon against poverty in New Mexico but its effectiveness is compromised by under-utilization and the high fees many low-income filers pay for commercial tax preparation and "rapid refund" tax loans. This policy brief examines participation by New Mexicans in EITC and "rapid refund" programs and suggests low-cost policy solutions to under-utilization of EITC and over-utilization of commercial tax preparation in New Mexico.

Working poor families can realize substantial cash returns through EITC:



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Failure to file a federal income tax return costs New Mexicans at least $29 million in EITC annually.

A recent report published by the New Mexico Department of Taxation and Revenue (TRD) concludes that low-income New Mexicans forego ***at least*** $29 million in Earned Income Tax Credit (EITC) per year by failing to file a federal income tax return.[1] The report suggests that most low-income New Mexico families take advantage of either the state-administered Low Income Comprehensive Tax Rebate (LICTR) program,[2] and EITC. It also concludes that by failing to file a federal and/or state income tax return a significant number of low-income New Mexico households forego an average of $1,000 per year in personal income tax rebates and credits.

In New Mexico EITC lifts approximately 20,000 households and 36,000 children from poverty, a 28% reduction in poverty for the children of working parents.

EITC lifts more children from poverty than any other government program or category of program. Nationwide, it lifts approximately 4.6 million people, over half of whom are children, from poverty.

The EITC is a refundable personal income tax credit administered by the federal government that supplements the earnings of low-income workers. The primary beneficiaries of the credit are working families with children (although workers between 25 and 64 with no children and income less than $10,200 are eligible for modest amounts of EITC.) The maximum credit ($3,888 for tax year 2000) is realized by families with two or more children and modified adjusted gross income (MAGI) between $9,500 and $12,500. Credit amounts are based on modified adjusted gross income (adjusted gross income plus non-taxable interest) and number of children.

For tax year 1998, 179,459 New Mexico households received $286 million in EITC. For the large majority of households - 85% - the EITC rebate exceeded the tax liability, and the family received some cash refund. After paying their federal taxes, each recipient household of EITC received an average of $1,628, for a total of 249.5 million dollars returned to New Mexico.

Forty-eight percent of low-income New Mexicans pay someone to do their taxes. Commercial tax preparation and "rapid refund" loans arecosting low-income New Mexicans approximately $26 million each year.

The High Cost of Rapid Refund Loans

While under-utilization of EITC is cause for concern, more troubling, and perhaps more costly to low-income New Mexicans, is reliance on commercial tax preparation and so-called "rapid refund" programs. Forty-eight percent of low-income New Mexicans (184,235 households) pay someone to do their taxes. Preparation of state and federal income taxes for a household eligible for EITC by a reputable, high volume preparer costs about $60. Electronic filing, which cuts the average wait time for a refund from seven weeks to three weeks, is an extra $32.

Many families also opt for a "rapid refund," where the tax preparer pays the family the tax rebate immediately. Rapid refunds are really just high-interest loans based on expected refunds, and usually cost between $30 and $60. Thus, even utilizing a mainstream, high volume tax preparation service subtracts an average $140 from the typical low-income family's EITC benefit. At a minimum this amounts to a cost of $26 million statewide.

High Interest "Tax Loans" are Business as Usual in New Mexico's Poorest Communities

In Gallup, 72% of 1998 federal income tax filers reported income less than $22,000 and the average household income for a family of three is about $12,000 (8% ***below*** the poverty threshold). Eighty-three percent (83%) of the low-income population utilizes a paid preparer, but the costs of tax preparation are much higher than in other communities.

Tax form preparation averages $90 in Gallup (compared to $60 elsewhere). "Rapid refunds" cost an additional 15% of the refund expected. The average refund is $1,504, so the cost of the rapid refund is $225 (again, compared to $30-$60 elsewhere). Thus, the typical family in Gallup pays over $300 to have their taxes done.

But, the costs are even greater for the working poor families in Gallup, many of whom are eligible for the maximum $3,888 EITC. If they choose a rapid refund of the full amount they pay over $670 to the tax preparer – $90 for preparing the tax forms and $580 for the rapid refund.

The turn-around time on a tax refund filed electronically is 3 weeks. Charging 15% of the principle on a three week loan is equivalent to an annual percentage rate of 180%, 9 times the rate charged on a credit card cash advance.

Increasing EITC Utilization

The Taxation and Revenue Department report suggests that increasing EITC utilization by New Mexicans could be as simple as including an EITC reminder in the New Mexico personal income tax packet on or near the application. Low- income households that file neither state nor federal taxes could be informed of EITC through a notice accompanying Medicaid or EBT cards.

An alternative response is a targeted letter campaign similar to that recently undertaken to inform eligible households of child Medicaid (please see NMACF policy brief #2 ***Mail In Medicaid Enrollment: Removing the Barriers to Health Insurance for New Mexico's Low-Income Children***)[3]. The same process could be undertaken in reverse: Medicaid households that appear to be EITC eligible, but cannot be matched to a state or federal tax return, would be sent a letter informing them of how, when, and why they should file a tax return.

Unfortunately, neither of these approaches will prevent unscrupulous tax preparers or predatory "loan sharks" from extracting an exorbitant share of the benefits realized through increased utilization of EITC. Tax forms, particularly the federal form EIC and state form PIT RC, are complicated and intimidating. Literacy and language may pose substantial barriers for some potential filers. Thus, the only way to ensure that EITC recipients retain the full benefit of their participation in the program is to provide them with low or no cost tax preparation assistance.

During tax season, the New Mexico Taxation and Revenue Department provides state tax preparation assistance to low-income filers at its field offices. TRD does not have the resources to assist in federal income tax preparation. Tax preparation assistance for low-income filers is provided through IRS-sponsored Volunteer Income Tax Assistance (VITA) programs in some areas of the state, but VITA services are limited and under-publicized and, as a result, only utilized by approximately 1.5% of New Mexico filers.[4]

Policy Briefs #1, #2, and #3 are available in PDF format online at www.nmadvocates.org

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Recommendations

- Legislators and the Governor can reduce child poverty by insuring that New Mexicans receive the full EITC rebate. This can be accomplished by regulating the amount charged by tax preparers for rapid refunds through enactment of Refund Anticipation Loan (RAL) legislation.[5]

- Employers can help employees take advantage of EITC and avoid the "rapid refund" trap by helping them to utilize the *Earned Income Credit (EIC) advance payment option* which allows some recipients to receive their EITC rebate in advance installments. EIC advance payments, included in every paycheck, are available to workers with at least one qualifying child who expect to earn less than $27,413 in the year 2000. Advance EIC payments increase the typical worker's take home pay by over $100 a month. In 1997, the last year for which data are available, less than one third of one percent of the EITC paid to New Mexicans was received through advance payments, despite the fact that most EITC recipients were eligible for the program.

- State agencies can also help by expanding awareness of VITA and actively recruiting VITA volunteers in under-served areas, such as Gallup and Grants. Training these volunteers in both federal and state tax preparation will help ensure that all low-income tax benefits go into the pockets of the intended beneficiaries.

- The Human Services Department can enhance EITC utilization among its clients by providing federal tax preparation assistance at its Income Support Division field offices.[6]

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[1] TRD results are based upon a match by social security number of Medicaid case files, federal income tax returns, and state income tax returns. Research cited with permission from the New Mexico Taxation and Revenue Department. The views expressed in this policy brief do not reflect those of the Taxation and Revenue Department or its employees.

[2] For a more comprehensive discussion of LICTR, see NMACF policy brief #1.

[3] Households deemed to be Medicaid eligible on the basis of data provided on a 1998 state income tax return were matched to Medicaid case files. Households that couldn't be matched were sent a letter by TRD informing them of their apparent eligibility and the benefits of Medicaid for their children.

[4] A list of VITA providers is available from the IRS 1-800-TAX-1040 and the New Mexico Taxation and Revenue Department 1-505-841-6200 during tax season.

[5] The Refund Anticipation Loan legislation should contain these components:

- a requirement of annual licensure and full disclosure of fees by refund anticipation loan providers;
- a definition of an "unconscionable" fee for refund anticipation loans; licensure must be contingent on charging a fee that is lower;
- stiff penalties for providing refund anticipation loans without a license, or charging fees other than those posted or reported for purposes of licensure;
- a clear statement of interest rates, expressed so they can be compared to credit card or mortgage interest rates;
- a requirement that VITA locations and phone numbers be posted at tax preparation and loan companies; and
- a requirement that tax preparers inform customers that they can file electronically without taking out a "rapid refund" loan.

[6] HSD could probably apply some of the money spent on such assistance against its TANF maintenance of effort requirements.

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NEW MEXICO ADVOCATES FOR CHILDREN AND FAMILIES

Campaign to Reduce Child Poverty

Policy Brief #4

Medicaid Look Back Periods are Barriers to Health Insurance for Children

Medicaid is a health insurance program for low-income children. In New Mexico it is available to children 19 years old and younger who live in households with incomes equal to or less than 185% of the federal poverty threshold[1].

The cost of Medicaid is shared between the state and federal governments at a ratio of 1:3. The federal government also made funds available to states at a match rate of 1:4 to expand children's health insurance beyond the limits defined by the state's Medicaid policies. Under this program, called the State Children's Health Insurance Program (SCHIP), New Mexico opted to extend health insurance coverage to children in households with income equal to or less than 235% of the federal poverty threshold[2].

When access to low-cost, publicly subsidized insurance is increased, as with New Mexico's SCHIP, some people who purchase or would purchase private health insurance choose Medicaid instead. Crowd-out is the displacement of private insurance with public insurance. Raising the income ceiling on Medicaid eligibility for children may "crowd out" private insurance by encouraging parents who purchase private insurance for their children to drop that coverage and enroll their children in Medicaid because it is less expensive and/or provides more comprehensive benefits.

Because of concern about potential crowd-out, New Mexico mandated a "look-back" period. Under current Human Services Department Medical Assistance Divsion Regulations (MADKID 422), SCHIP-eligible households that "voluntarily" drop private health insurance coverage must wait 12 months before enrolling their children in SCHIP.

The look-back applies even when insurance is dropped due to premium and/or cost sharing increases initiated by the insurance company or the employer[3]. The intent of the look-back period is to minimize crowd-out by limiting SCHIP coverage to families that would otherwise be uninsured. This policy brief examines the extent to which recent expansions in Medicaid eligibility for children may have "crowded out" private insurance coverage and the policy implications this has for New Mexico.

Specifically, this brief will demonstrate that:

- ***Look back periods are unnecessary and inequitable, especially when crowd-out originates with employers.***
- ***Current regulations cause children to remain uninsured for a year. The potential consequences of this choice far exceed the general fund savings attributable to the look- back period.***
- ***The cost of private health insurance for low-income households contributes to poverty.***
- ***Because of the generous 73% to 81% federal match, state investments in Medicaid and SCHIP will stimulate the New Mexico economy.***

What is Crowd Out?

The displacement of private insurance with public insurance such as Medicaid costs private insurers money because it reduces the size of the private insurers' risk pools and changes their composition. Children are a valuable component of risk pools because, after the first year of life, they are relatively inexpensive to insure. The profits associated with covering children offset the losses associated with insuring higher risk populations such as pregnant women and middle-aged men.

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Insurers therefore contain premium costs for the population by subsidizing coverage for adults with premiums paid on behalf of children. The exit of children from private risk pools could thus increase insurance rates for all those who remain, including their parents. Some argue that the "cost shifting" attributable to crowd-out negates the benefits of Medicaid expansions by increasing the costs of insurance for parents and other privately-insured members of the community.

Does Crowd Out Really Happen?

Private insurance coverage has been declining nationwide since the mid-1980's. This decline has occurred at the same time as expansions in Medicaid eligibility. It is probable that these two events are, to some extent, correlated; but it is also probable, due to the increase in two-earner households[4] and the rising cost of healthcare, that the most of the decline in private insurance coverage would have occurred in the absence of Medicaid expansions.

Approximately 90% of all Americans with private health insurance obtained that coverage through their employer. Despite the pressure recent economic growth has put upon labor markets, fewer and fewer Americans are obtaining health insurance through their employer and an increasing number are without any health coverage at all.

There have been many studies of Medicaid crowd out, all have found some evidence of its occurrence, but most have found its effect to be relatively small. Though estimates of magnitude vary, the majority of studies conclude that between 14% and 19% of new Medicaid enrollees would have obtained or maintained private insurance coverage had they not become eligible for Medicaid as a result of a Medicaid expansion.

Sources and Mechanisms of Crowd Out

Few, if any studies have conclusively disaggregated crowd out attributable to the actions of the insured (typically employees) from crowd out attributable to the actions of insurance providers or purchasers (typically employers). The health consequences and policy implications of crowd out vary markedly with its source and mechanism.

Employer-Side Crowd Out

If an employer considers publicly provided insurance, such as Medicaid, to be a costless substitute for the private insurance that she subsidizes on behalf of her employees, she may encourage eligible employees to switch to Medicaid by:

1. ceasing to offer coverage to both employees and their dependants;
2. continuing to offer employee coverage, but ceasing to offer coverage to dependants;
3. increasing the employees' share of premiums.

Employee-Side Crowd Out

If an employee regards publicly provided insurance as an inexpensive substitute for private insurance he may:

1. decline employer-provided coverage when it is offered;
2. disregard the availability and type of healthcare coverage when choosing between jobs.

In most cases crowd out is probably the product of actions taken by both the employer and the employee. Employers are responsive to signals sent by prospective and new employees, particularly when the labor market is tight. If new employees do not enroll in employer-sponsored health coverage the employer may choose to substitute higher wages for health insurance, believing this compensation package to be more attractive to workers. Of course, if the health insurance offered by the employer excludes dependants or requires large employee contributions, the new employees' failure to enroll in health coverage through their job may say relatively little about their preferences for wages relative to benefits. The same will be true if the ability of prospective employees to "shop around" for employment is relatively limited.

Few studies have examined employer-side crowd-out, probably because it is difficult to isolate. In a time of increasing premium costs and declining coverage rates, an employer may have many reasons besides the availability of Medicaid for encouraging her employees to seek coverage elsewhere. While a firm with a high percentage of Medicaid eligible employees may simply drop coverage for dependants, one with a more heterogeneous workforce may have to take a more subtle approach, for instance, increasing employee cost sharing or offering insurance only to managers. This form of crowd out, which is difficult to detect and probably the most prevalent, can masquerade as employee-side crowd out. Current Medical Assistance Division regulations penalize

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employees with a look-back period even if insurance is dropped because of increased costs or other employer action.

Unsubstantiated Fear of Crowd-Out is Costly to New Mexico

New Mexico is allotted more than $57 million a year under the SCHIP program. But in its first 10 months of implementing the program, the state spent only about $3 million. New Mexico lost $54 million in SCHIP monies when the deadline for using the monies passed in September.

Based on estimates from the existing literature and a demographic profile based on 1998 state personal income tax filings and Census data, we estimate that MADKID 422 excluded approximately 700 additional children from SCHIP in 1999, saving the state general fund around $300,000[5].

At present there are roughly 15,000 SCHIP-eligible children in New Mexico. Eliminating existing insurance status as a determinant of SCHIP eligibility would increase this number to roughly 50,000 and enable New Mexico to take full advantage of its current and future SCHIP allotments.

Unintended Consequences

Covering Kids, a project funded by the Robert Wood Johnson Foundation that assists states in enrolling eligible children in Medicaid, reports a disturbing consequence of the look back requirement. Medicaid community enrollment representatives claim that some families are dropping their private insurance and remaining uninsured for 12 months in order to enroll in SCHIP. This information is anecdotal, but even if relatively few families are doing this, the risks they impose on themselves and the state by going without health insurance are great. Just one child permanently disabled by a condition that could have been prevented with appropriate, timely care could easily cost the state more than its entire 1999 general fund savings attributable to the SCHIP look-back period.

Benefits to Low Income Households

The average SCHIP-eligible single-parent, two-child household had income of $28,236 in 1998. At 210% of poverty this household did not qualify for food stamps or household was eligible for a CYFD childcare subsidy, but was required to make a monthly payment of $191 per child per month. Because this household had income above $22,000, it was not eligible for the state Low Income Comprehensive Tax Rebate (LICTR), and, even after all applicable rebates and credits (EITC, federal childchild credit), incurred positive state and federal income tax liability.

The following table contrasts income and expenditure for a single-parent two-child household at 210% of poverty. The first column is income, the second column is expenditure when the family has employer-sponsored HMO coverage, and the third column is expenditure after both children are switched from the employer-sponsored HMO coverage to SCHIP.

Budget for Single Parent, 2 Child Household at 210% of Poverty			
		W/O SCHIP	With SCHIP
	income	expenses	expenses
Income	$28,236		
State income tax		$193	$311
Federal income tax		$832	$311
EITC	$394		
Food		$4,830	$4,830
Housing & utilities		$7,200	$7,200
Clothing		$1,427	$1,427
Childcare		$2,292	$2,292
Household supplies		$1,776	$1,776
Car payments		$3,080	$3,080
Car ins, gas, & maintanence		$2,297	$2,297
Personal care		$298	$298
School & books		$316	$316
Medical services		$500	$165
Health Insurance		$2,750	$881
Medicines		$280	$92
Disposable Income		-$1,880	-$38

Source: U.S. Bureau of Labor Statistics, 1998 Consumer Expenditure Survey.

A typical New Mexico single parent family with two children earning $28,236 -- 210% of poverty guidelines -- cannot afford basic necessities and pay for private health insurance.

General Fund Considerations

Concerns about Medicaid expansions have focused, not inappropriately, on their potential cost to the state. Look-back periods are an attempt to limit those costs, but they may inadvertently compound them by encouraging households with children to become uninsured.

Ultimately, the state pays the cost of failing to insure its low income population, whether it be through state aid to people disabled by untreated conditions, lost productivity, poor educational outcomes for sick children, or massive tax expenditures on hospitals that treat indigent patients[6].

The federal government matches New Mexico SCHIP expenditures at a rate of approximately 82%. This means that every $1 of general fund money spent on SCHIP brings an additional four federal dollars into the state. Federal Medicaid spending stimulates the New Mexico economy in the same way that other injections of outside cash such as federal defense spending, tourism, and natural resource exports do.

Reduced co-payments and deductibles resulting from the switch from private insurance to Medicaid may also enable parents to seek medical care for their children sooner and more often. Increased demand for physicians' services increases physicians' income, which, when spent in New Mexico, further stimulates the economy.

Expanding Medicaid coverage also has positive tax consequences. The parent depicted in the table on page 3 saved $1,842 annually by switching her two children from employer-sponsored HMO coverage to SCHIP. Employer-sponsored insurance, including, in most cases, the employee contribution, is tax exempt income. Therefore, the shift from private insurance to public insurance costs her $118 in increased state income taxes. She will spend the remaining $1,724 in New Mexico, stimulating the economy and sending gross receipts tax to the state general fund and local governments.

Policy Implications

Although federal regulations require that a state's SCHIP plan address crowd out, they do not require look back periods or other punitive measures to discourage it. States can comply with the federal mandate to "address" crowd-out by simply monitoring it and taking action if it becomes a problem.

Eighteen states have no waiting period at all. New Mexico and Alaska are the only states that impose a 12 month waiting period. The average waiting period is 3 months.

None of the 18 states that have opted for this approach have observed crowd out sufficient to warrant imposing a look back period.

Most states with waiting periods allow numerous exceptions including circumstances in which[7]:

- The employees share of the cost is more than 10% of household income (Maine).
- The employer doesn't pay at least 80% of the cost of coverage (Wisconsin).
- Family premiums are more than $50 (Connecticut).

Conclusion

Look-back periods are effective cost-containment strategies if and only if most crowd out originates with employees, a contention that is not, at present, supported by either state-specific or national evidence.

Unless it can be proven that insuring all low-income children is an inefficient use of state resources, New Mexico should support its low income working families by eliminating the look-back period.

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[1] For a family of three 185% of the 2000 federal poverty threshold is an annual income of $26,178.

[2] For a family of three 235% of the 2000 federal poverty threshold is an annual income of $33,253.

[3] Households with income between 185% and 235% of the federal poverty threshold are eligible for SCHIP. Look-back periods do not apply to households with income below 185% of the federal poverty threshold because they are eligible for conventional Medicaid.

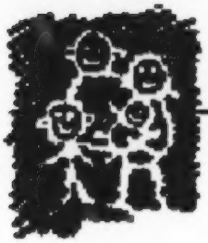
[4] Many working couples choose family coverage through one spouse's employer and turn down coverage offered by the other spouse's employer.

[5] Estimate assumes that the look back period reduced SCHIP enrollment by 15%. The average capitation rate for children in Medicaid is $178 per month.

[6] State tax expenditures on hospitals exceed $150 million annually. Expenditure estimates are available from the New Mexico Department of Taxation and Revenue and the New Mexico Health Policy Commission.

[7] *State Children's Health Insurance Program (SCHIP): Crowd-Out Provisions.* National Conference of State Legislatures http://www.ncsl.org/programs/health/crowdout.htm

This research was funded by the Robert Wood Johnson Foundation through Covering Kids in New Mexico and the Annie E Casey Foundation through its support of New Mexico KIDS COUNT.



NEW MEXICO ADVOCATES FOR CHILDREN AND FAMILIES

Campaign to Reduce Child Poverty

Policy Brief #5

Insuring Parents Improves Health Outcomes for Children

Introduction

This policy brief investigates utilization of preventative healthcare by insured children in New Mexico. The research cited in this brief[1] reveals that parents who obtain preventative healthcare for themselves are more likely to procure preventative care for their children. Furthermore, if children have health insurance but their parents do not, they are less likely to receive preventative care than are children in families in which both children and adults are insured.

Of all the different varieties of health insurance, Medicaid insurance appears to be the most conducive to utilization of preventative health care by children. Children on Medicaid are twice as likely as children with other types of insurance to receive preventative care, regardless of household income and parental insurance status. Medicaid enrollment also increases the probability that an insured child will have a single customary source of medical care that is not an emergency department or urgent care center.

The Importance of Preventative Care and a "Medical Home"

Research suggests that consistent health supervision over the course of a child's development not only prevents disease, it helps to ensure a child's success in school, at home, in the community, and in adulthood[2]. Regular well-child visits to a pediatrician or other qualified health practitioner for immunizations, physical examinations, and screenings for common childhood maladies such as vision and hearing impairments, iron deficiencies, obesity, and lead exposure are essential to children's health. So, too, are regular dental examinations. Poor oral health is an epidemic among US children that has been linked to numerous long-term deficits in health, learning, and social behaviors[3].

Healthcare experiences and health outcomes are best for children and their parents if they are able to establish a medical home with a healthcare professional. Families with a medical home benefit from continual, comprehensive, coordinated care and tend to receive necessary services and referrals in a prompt manner. They are encouraged to return for follow-up visits, maintain a schedule of examinations, and follow through on recommendations by filling prescriptions and visiting the specialists to whom they are referred.

Having a usual source of medical care that is not an emergency department or urgent care center is central to establishing a medical home. Recent research shows that children with a usual source of care are more likely to obtain adequate and appropriate medical care[4]:

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- Infants who see many different doctors are less likely than those who see the same doctor to receive a complete and timely series of immunizations[5].
- Children with middle ear infections who have a usual source of medical care are more likely to have antibiotics prescribed for complicated or recurrent ear infections.
- Children with middle ear infections who have a usual source of medical care are more likely to have caregivers who fill their prescriptions and to receive prompt referrals for ear surgery[6].
- Children with a usual source of care are less likely to utilize an emergency department for treatment of ear infections[7].

Regular preventative healthcare for children can also improve the health of entire households by teaching parents how to promote healthy practices, how to deal with difficult behaviors, and how to identify and address risk factors in both their children and themselves.

Limited Access to Care Results in Unmet Need

Despite its proven benefits, consistent preventative healthcare remains out of reach for many US children, especially those who are poor.

Health insurance is a key determinant of access to health care. Low-income[8] children are far more likely than middle and upper income children to be uninsured. Uninsured children are three times more likely than privately insured children to have at least one unmet healthcare need[9]. In 1998, just over 17% of uninsured children in the US had not seen a doctor in the past year[10]. Responding to a recent survey commissioned by the Kaiser Foundation, 46% of parents of Medicaid-eligible uninsured children reported postponing necessary healthcare for their children compared to 16% of parents of children who were enrolled in Medicaid. Twenty-six percent of parents whose children were Medicaid eligible but un-enrolled reported being unable to pay for their children's prescriptions compared to 13% of parents whose children were on Medicaid. The same study reports that 82% of Medicaid eligible enrolled children utilized well-child care while only 61% of Medicaid eligible uninsured children did[11].

But the impact of income on access to healthcare cannot be explained by health insurance status alone. Even when they are insured, low income families have a harder time obtaining healthcare. This suggests that other variables related to healthcare costs, such as co-payments, deductibles, prescription drugs, the distance to the nearest source of healthcare, and the availability of paid sick leave also influence utilization of care.

Despite the availability of Medicaid, approximately 11.9% of poor children have not seen a doctor within the last 12 months and a far greater percentage have not received the number and sequence of well-child examination recommended by the American Academy of Pediatrics.

Poor and near-poor children are three times more likely than children who are not poor to have unmet healthcare needs[12]. The National Center for Education in Maternal and Child Health reports that 18% of near-poor and 21% of poor infants 19-35 months have not received a complete series of the 4 key childhood vaccines[13].

In a recent survey of both insured and uninsured New Mexico parents, 46% of higher income parents and 83% of higher income children report receiving preventative care compared to 37% of low-income parents and 77% of low income children. Over 30% of New Mexico adults with annual income below $10,000 report unmet need for preventative healthcare, while unmet need for preventative healthcare averages less than 5% for adults with annual income over $30,000[14,15].

Nationally, poor and near-poor children are also less likely than their upper and middle-income counterparts to have a usual source of care. Poor Hispanic children are the group least likely to have a usual source of care. Among US Hispanics living in poverty, 7.4% of children ages 6-17 and 8.4% of children under 6 lack a usual source of care[16,17].

In New Mexico Preventative Care is a Family Affair

Parents who obtain preventative care for themselves are more likely to obtain preventative care for their children. In New Mexico, utilization of preventative healthcare by upper and middle-income parents more than doubles the probability that children will also receive preventative care, even when other attributes of the household such as parental age and health status are controlled for. In low-income households the relationship between preventative care for parents and children remains positive but is considerably weaker. Income-related differences in the strength of the relationship between preventative care for parents and preventative care for children may arise because many low-income households that value preventative care cannot afford to obtain it for all family members. Obtaining care for a child may preclude obtaining care for a parent, or vise versa. Most upper and middle-income households, on the other hand, have resources sufficient to obtain the desired level of care for every family member. Obtaining care for one family member does not necessitate foregoing care for another and thus utilization of preventative care by upper and middle income parents more closely parallels utilization of preventative care by their children.

Parental attitudes towards health and healthcare play an important role in determining the type and quality of care that children receive[18]. Numerous national studies demonstrate a strong link between utilization of ambulatory care by mothers and their children, both in the probability of having seen a doctor within the previous twelve months and in the annual number of doctor visits[19]. One researcher notes that while the relationship between child and parent utilization of preventative care is not contingent on insurance status, it is strongest when both the parent and the child are privately insured[20].

The link between parental insurance and preventative care for children is clear in New Mexico. Insured children whose parents are also insured are almost twice as likely as insured children with uninsured parents to receive preventative care. Children in New Mexico are also more likely to have a usual source of care if their parent has one. A low-income child whose parent has a usual source of care is 14 times more likely than a child of comparable income whose parent lacks a usual source of care to have a usual source of care themselves. A middle or upper income child whose parent has a usual source of care is 12 times more likely than a middle or upper income child whose parent lacks a usual source of care to have a usual source of care themselves.

Medicaid enrollment by young children grew 13% in the 15 states that recently expanded Medicaid to cover parents as well as children[22]. Extending eligibility to parents may stimulate enrollment of children because the benefits of Medicaid enrollment increase as more family members gain coverage.

These results suggest that in New Mexico, healthcare and insurance decisions are made at the family level rather than on an individual basis. Parents who are insured and obtain care for themselves better understand the importance of health and healthcare. Their increased familiarity with the healthcare system enables them to navigate it and advocate more effectively on behalf of their children's healthcare needs. Therefore, interventions such as providing publicly financed insurance to whole families rather than individual children that affect parents' attitudes toward and utilization of healthcare are likely to increase children's utilization of care.

Public Insurance Makes a Difference

Over one-third of New Mexico children are enrolled in Medicaid and over 60% of New Mexico children are potentially eligible on the basis of household income[21].

Children on Medicaid are almost twice as likely as other insured children to have had preventative care in the past twelve months and 2.4 times as likely as privately insured low-income children to have a usual source of care. Unlike most private health insurance plans, which entail co-payments and deductibles, care obtained through Medicaid is, in most instances, free. Co-payments and deductibles associated with most private health insurance are significant

barriers to preventative care for privately insured low-income children. Also, the comprehensive coverage provided under Medicaid enables parents to obtain services such as dental cleanings and eye care for their children that they might otherwise be unable to afford.

Other attributes of New Mexico Medicaid, including twelve-month continuous eligibility and presumptive eligibility further facilitate enrollment and encourage healthcare utilization.

Rhode Island recently extended Medicaid to parents under 185% of poverty. The Rhode Island Center for Child and Family Health reports that substantial increases in enrollment accompanied family eligibility. Slightly over half the new enrollees in Rhode Island were children.

New Mexico Leads the Nation in Uninsured Parents

Nationally, 15% of parents are uninsured. New Mexico leads the nation in parental uninsurance - 28% of New Mexico parents are uninsured and 47% of New Mexico's low income parents are uninsured. Over 90% of low income uninsured parents are in working families. New Mexico's generally low-paying service sector jobs provide extremely limited access to health insurance. When employers do make health insurance available to low income workers it is often prohibitively expensive or provides extremely limited coverage. Maintaining good health is essential to juggling the dual responsibilities of raising a family and remaining employed. It is therefore somewhat ironic that the only New Mexico parents currently eligible for public insurance are those who are also eligible for Temporary Assistance to Needy Families. In New Mexico a parent with two children must make less than $8,442 annually (an income 42% ***below*** the federal poverty threshold) to qualify for Medicaid. Nationally, the median Medicaid income eligibility level for a working parent is 69% of the federal poverty threshold ($10,032 for a family of three).

But 17 states provide Medicaid to parents at or above 100% of the federal poverty threshold and four states make Medicaid available to parents at or above 200% of the federal poverty threshold. If New Mexico were to expand Medicaid coverage to parents it would receive the SCHIP enhanced matching rate, meaning the federal government would pay approximately three quarters of the cost.

Conclusion

Public policy that targets parental access to and utilization of healthcare could increase preventative care for children by increasing the ability of families to obtain care. Given adequate resources, parents will choose a level of preventative care for both their children and themselves that is consistent with their attitudes and beliefs about healthcare. Therefore, outreach to families should proceed along two lines. First, improving the ability of parents to access the healthcare system for their own healthcare needs increases familiarity with health and healthcare and enables parents to navigate the system and advocate on behalf of their family's health. Second, ensuring that the healthcare budgets of low-income families are adequate to provide care for all family members eliminates the need to trade one member's healthcare for another's and improves the odds that all family members will receive adequate and ongoing care.

The results of this study support expansion of publicly subsidized health insurance to low income parents. Insuring parents will improve health care utilization by their children, even if their children are already enrolled in Medicaid, and families with Medicaid eligible but unenrolled children are more likely to enroll in a health insurance plan that covers the entire family.

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Notes

[1]The research cited in this brief, unless otherwise attributed, was conducted by Kelly O'Donnell utilizing data from the 1999 New Mexico Health Policy Commission (NMHPC) Household Healthcare Coverage Survey, a statewide random telephone survey conducted between April 15, 1999 and August 17, 1999 that resulted in 3,889 complete interviews. A subset of 980 survey respondents who rated their health as "good" or "excellent" and were the parent or legal guardian of at least one child under 18 who had been insured for more than six of the previous twelve months was used in conducting the statistical analyses presented here.

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[14] ibid

[15] These results may underestimate the true extent of the disparity in access because *perceived* need for healthcare by New Mexico adults also increases substantially with income.

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